

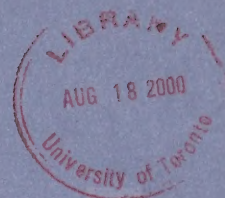
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ANNUAL REPORT 1998



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Ontario Housing Corporation
An agency of the Government of Ontario

**Ministry of
Municipal Affairs
and Housing**

Office of the Minister

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**TO THE LIEUTENANT GOVERNOR
OF THE PROVINCE OF ONTARIO**

MAY IT PLEASE YOUR HONOUR:

For the information of Your Honour and the Legislative Assembly, we have the privilege of presenting the Annual Report of the Ontario Housing corporation for the calendar year 1998.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Tony Clement'.

Tony Clement

Minister of Municipal Affairs and Housing



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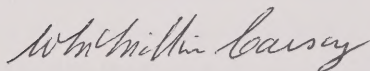
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TO THE HONOURABLE TONY CLEMENT,
MINISTER OF MUNICIPAL AFFAIRS AND HOUSING

MINISTER:

On behalf of the Board of Directors, I am pleased to present the Annual Report and Statement of Accounts of the Ontario Housing Corporation for the year ending December 31, 1998.

Respectfully submitted,



William McMillin Carson
Chair, Ontario Housing Corporation

Message from the Chair

As the Ontario Housing Corporation enters its 35th year, we are preparing for the proposed devolution of administration of the public housing portfolio to municipalities. I am reminded that public housing started out at the municipal level, after the federal government passed legislation in 1938 making it possible for municipalities to borrow funds from the federal government to provide low-income housing in their communities.

Revisions to that legislation about a decade later reinforced the local role for public housing. Under the new legislation, requests for social housing had to be initiated by municipalities, and day-to-day administration had to remain in the hands of local citizens.

These are the origins of the system of local housing authorities (LHAs) across the province which OHC administers. In many respects, the public housing delivery system now comes full circle, with the proposed return of a strong municipal role in social housing programs.

In anticipation of the proposed devolution to municipalities, the Board is looking closely at all suggested actions to understand how they might

affect the future municipal role in administering social housing programs. New municipal representatives on the OHC Board provide a municipal perspective, and reflect the new funding realities for public housing. We commend the Minister for appointing new members to LHA boards based on municipal nominations.

Looking back at 1998 provides us with reminders of our accomplishments, and we can assure both the province and the municipalities that public housing is well maintained and public housing tenants are well served. Among the highlights of the year:

- our first-ever independent building condition audit, which found that OHC stock is in as good as or better condition than comparable private buildings;
- the beginning of a performance improvement initiative which has already led to dozens of innovative changes to improve service and efficiency, and reduce expenses; and
- manageable expenses that were reduced by more than 15 per cent, exceeding our target.

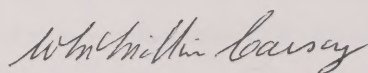
In 1998, the Board welcomed six new members, including municipal representatives. Steve Sobel, Jack McCreadie, Jean Paul Charles, Michael Feldman, Michael Hennessy, and Susan Whaley joined the Board. Our sincere gratitude goes out to the Board's vice-chair, Carolyn Reid, who ended her third term on the Board in December after nine years of service.

I extend my appreciation to the Advisory Council of Housing Authority Chairs, which serves as a valuable link between LHAs and the OHC Board of Directors. I was pleased to receive reports from the advisory council on key issues. In 1998, members of the advisory council were: Helga Bailey, Betty Ann Baker, Richard Carpani, Darlene Cook, Claudette Chevrier-MacLeod, Garry Dent, Zita Devan, Bryan Dorling, Rob Horne, Hal Jenner, Rashmi Nathwani, Martin Partridge, Denis Thibault, and Bing Wong. My particular thanks to Bryan Dorling and Garry Dent, who chaired the advisory council during 1998.

I also extend a special thanks to the boards and staff of the 54 LHAs, and to the staff of OHC, who have demonstrated a continued commitment to public housing during this extended period of transition.

On a personal note, I spent much of 1998 chairing the Social Housing Committee, which was appointed by the Minister of Municipal Affairs and Housing to make recommendations on the details of social housing reform in anticipation of municipal devolution. I owe my gratitude to the members of the Board, and particularly to vice-chair Carolyn Reid, for their patience while I turned much of my energy in 1998 to the committee's task.

My work on the Social Housing Committee included visits to seven Ontario cities to consult with public, non-profit, and co-op housing residents. This consultation reaffirmed my belief that one of OHC's key roles must be to support LHA boards and staff, so that they can provide the best possible service, stability, and information as plans for reform and devolution are refined and implemented.



William McMillin Carson
Chair

Members of the Board

The OHC Board of Directors is appointed by the Lieutenant Governor-in-Council. The Board is accountable to the Minister of Municipal Affairs and Housing for ensuring that the Corporation effectively carries out its mandate to provide socially-assisted housing, manage its portfolio, and carry out such programs in respect of housing as are directed by the Minister.

In 1998, six new members were appointed to the OHC Board, replacing members whose terms expired in 1997. The new members included three elected municipal officials, Jean Paul Charles (Reeve of Springer Township in the District of Nipissing), Michael Feldman (Councillor with the City of Toronto), Michael Hennessy (Mayor of Ingersoll), Steve Sobel, Jack McCreadie, and Susan Whaley joined Carolyn Reid, Susan Black, Sam Ciccolini, Shailesh Dudani, and chair Mac Carson.

Municipal representation at both the OHC and LHA Board levels offers municipalities a voice in the running of the public housing for which they are now paying a share.

Standing Committees of the Board

The OHC Board currently has three standing committees:

Policy and Program Committee

Considers and makes recommendations to the Board on matters relating to the policies and/or programs of the Corporation.

Finance and Management Systems Committee

Considers and makes recommendations to the Board on matters relating to the Corporation's financial position and management systems.

Audit Committee

Oversees audits, actions arising out of audits and the Corporation's systems of internal control.

Officers of the Corporation, 1998

Chief Executive Officer: Dino Chiesa

General Manager: Susan Gillespie

Treasurer: Bob Balaban

Corporate Secretary: Susan Taylor

Mandate

OHC's mandate is to provide socially assisted housing, manage its existing housing portfolio, and carry out housing programs as directed by the Minister. OHC provides housing for all types of households, including families, senior citizens, single persons, and childless couples.

OHC is the largest landlord in Ontario, with responsibility for providing shelter for more than 225,000 people. OHC owns 84,000 units of public housing across the province.

OHC is an agency of the Government of Ontario, established under the *Ontario Housing Corporation Act*, and is funded through rental income and payments from the municipal and federal governments.

As a Schedule I agency, OHC purchases management, policy development and operational support, as well as financial, human resources, audit, legal, communications, and agency services, from the Ministry of Municipal Affairs and Housing. Seven Regional Offices of the Ministry of Municipal Affairs and Housing also provide administrative support to the LHAs and represent

OHC in the field. These offices provide technical, financial, and administrative support to LHAs, where required, as well as to other ministry programs.

LHAs act as local delivery agents for OHC. There are currently 54 LHAs. Each LHA is an agency of the Government of Ontario, and is governed by a board of members appointed by provincial Order-in-Council.

History

OHC was established as a Crown corporation of the Province of Ontario in 1964, the same year the federal government amended legislation to make it possible for provinces to build and manage their own portfolio of public housing. It was responsible for managing the 39 housing authorities which had been set up across the province in the 1950s to manage approximately 6,200 public housing units. OHC also gained control of major land banks for future development and embarked on a development program in cooperation with municipalities. By 1974, the OHC portfolio had expanded to more than 64,000 units.

Over time, the Corporation's activities shifted toward an emphasis on managing and maintaining its housing portfolio. This shift included greater reliance on alternatives to construction of new units, such as programs to supplement the rent of tenants in privately owned units on a geared-to-income basis.

The provision of social housing in Ontario continued to change through the 1980s and into the 1990s as the government placed greater emphasis on the construction of non-profit and co-operative developments, and OHC adopted a broader policymaking role in the continued provision of public housing in Ontario.

OHC now oversees 84,000 public housing units and through LHAs administers rent supplements in 13,000 units in privately-owned buildings.

Achievements in 1998

Preparing for the Proposed Devolution

Effective January 1, 1998, municipalities became responsible for paying the provincial share of public housing subsidy costs, the first phase of devolution of responsibility for social housing to municipalities.

OHC was active in contributing to the second phase of devolution, the proposed reform of social housing programs. The OHC Board's vice-chair, Carolyn Reid, served on the Public Housing Working Group, which reported to the Social Housing Committee on options for administering public housing at the municipal level. The OHC Board made a presentation to the Social Housing Committee and presented oral and written comments on the committee's discussion paper. Staff participated in a number of staff level social housing reform committees, bringing the OHC perspective to discussions.

Staff supported the ministry's three major data releases, sharing information on the social housing portfolio with municipalities.

OHC now awaits the third phase of devolution – the proposed transfer of administrative responsibility to the municipalities.

Effective Management

Announcement of the government's intention to devolve social housing placed the OHC organization in an environment of uncertainty about its future. Nevertheless, OHC retains its responsibility to make the decisions required to run a billion-dollar business in the most efficient and effective manner possible.

The average per unit per month subsidy for OHC owned public housing (excluding capital improvements and extraordinary items), was reduced from \$260 in 1995 to \$218 in 1998, exceeding the target of \$223. (See Table I.)

Table I
Per-Unit Operating Costs 1995-1998

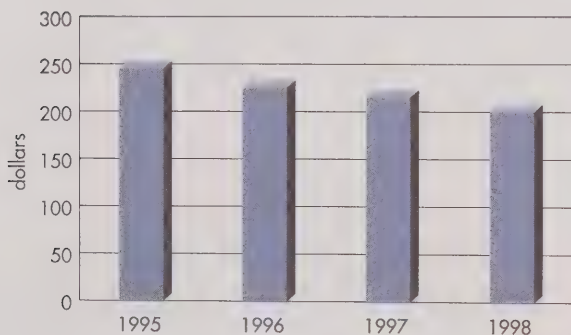
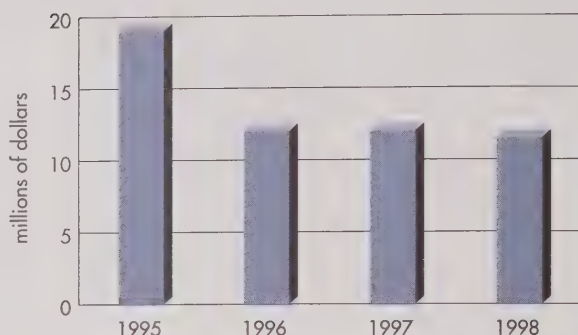


Table II
Ministry of Municipal Affairs and Housing Chargebacks 1995-1998



Charge-backs to OHC from the Ministry of Municipal Affairs and Housing for head office and regional office support have been reduced from \$20 million in 1995 to \$13 million in 1998.(See Table II.)

Although the Board is committed to managing efficiently, it wants to ensure that both the quality of building condition and service to tenants are maintained. Potential savings are weighed against potential impact to services when the Board makes its deliberations.

Taking Care of the Buildings

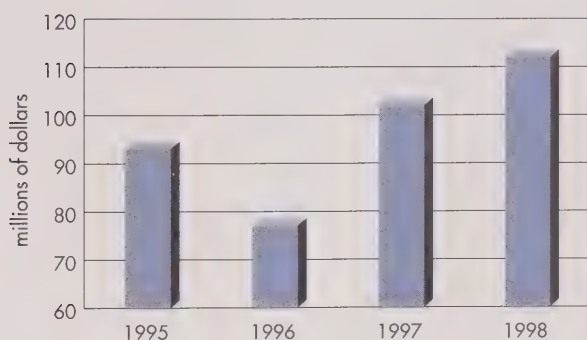
Capital repairs not only ensure that buildings are safe and secure for tenants, but also prolong the life of the stock and allow for long term savings in operating costs. OHC and housing authorities delivered a capital repairs program of \$117 million in 1998, the largest in OHC's history. Priorities for capital work are set according to guidelines that first address life safety, structural integrity, and legislative requirements, followed by building functionality and cost-effective initiatives.

OHC's first ever building condition assessment of the public housing stock was completed and

released in 1998. Independent experts reviewed 119 randomly-selected, representative projects, about 10 per cent of the portfolio. The consultants found that "the OHC stock is generally in as good or better condition than privately-managed housing in comparable locations."

A study by KPMG, commissioned in 1998 by the Metropolitan Toronto Housing Authority (MTHA), found that OHC and MTHA have in place "an effective capital budgeting tool that in many ways is at the leading edge of the real estate industry."

Table III
Capital Spending 1995-1998



Performance Improvement

OHC continues work on an LHA performance improvement project. Tools were developed and sent to LHAs to allow them to compare themselves on key criteria, such as actual manageable costs, net operating losses, and revenues per unit per month. These tools included an analysis of 1997 financial results and profiles describing the unique characteristics of each housing authority. These tools allowed LHAs to understand which of their counterparts are the most similar, so they could identify and share best practices.

In the fall, LHAs submitted more than 300 initiatives to improve operational efficiency, effectiveness, and customer service. Innovative ideas included making debit card machines available for rent payments, and discontinuing building phone lines in favour of equipping staff with cell phones. Plans will be shared with all LHAs in 1999.

In addition, a consultant was hired to review performance indicators and standards in OHC, in the private sector, and in public housing in other provinces and the United States. The consultant reported on what results should be measured, how best to measure them, and the importance of establishing a best practices team.

Rent Supplement Program Review

Through the LHAs, OHC administers rent supplements for tenants in approximately 13,000 units in privately-owned buildings. The Provincial Auditor completed an audit of the Rent Supplement Program in 1997/1998, reporting in November 1998. The report concluded that actions were need to ensure the program is delivered more efficiently, that some procedures needed to be improved, and that results need to be measured.

A program review was initiated in December 1998 to implement the Provincial Auditor's recommendations. The objectives of the review are to streamline the administration of the program to improve cost-effectiveness and accountability, and to ensure that program delivery is maintained as social housing is devolved to municipalities. Expected results are a simplified program delivery process, revised reporting requirements, and an updated Rent Supplement Manual. The review will be completed by December 1999.

LHA Training and Development

OHC plays a key role in meeting the training and development needs of LHA board members and staff. In 1998, OHC conducted seven training sessions for 99 new LHA board members.

Training on changes to procedures in landlord-tenant relations under the new *Tenant Protection Act* was provided to more than 600 staff. Two training sessions for LHA staff on tendering practices have been held and more are planned for 1999.

OHC held province-wide meetings for LHA managers and chairs in May and September. These meetings were well received and more are being planned.

Information Technology

The roll-out of two new systems to support rent tracking and tenant selection were completed.

Other social housing providers are now showing interest in using the latter software, which was developed by OHC staff.

LHA desktops were upgraded to a common Windows platform and a common LAN environment. LHA e-mail was also upgraded to improve communication between head office and housing authorities.

Year 2000

OHC began reviewing its mission critical and business critical systems for Year 2000 compliance. As of December 31, 1998, all 11 mission critical systems had been fully certified, and work was on track on the business critical systems to complete certifications according to plan.

Ice Storm

The ice storm that devastated much of eastern Ontario and parts of Quebec at the beginning of 1998 had a major impact on some local housing authorities. Tenants, staff, and buildings in the Ottawa-Carleton, Cornwall, Hawkesbury, Kingston, and Prescott housing authorities were hardest hit.

Housing authority staff handled innumerable challenging situations at work, while facing the same difficulties in their own homes. Staff handled tenant evacuations, 24-hour-a-day building checks, hauling generators, and many other challenges, while helping to keep tenants safe, warm, and reassured.

Damage to OHC buildings was minimal, although there were substantial clean up costs shortly after the storm and in the spring, once damage could be fully assessed.

The experience of the ice storm is now being used as a model for emergency planning and preparedness for possible year 2000 problems.

Dr. Albert Rose Bursary Program

Under this program, OHC grants bursaries to support education for tenants in public housing communities. Bursaries of \$1,000 over two years for post-secondary education and short-term training are granted. Bursary winners are chosen by regional selection committees on the basis of academic achievement, community contribution or a part-time job after school as well as extra curricular activities.

In 1998, 92 awards were made under this program, which is named for a key figure in the history of Ontario public housing. Dr. Rose was a leading voice in convincing the City of Toronto to build Canada's first public housing, North Regent Park, and served on both the Metropolitan Toronto Housing Authority and OHC Boards between 1955 and 1986. He was a dynamic housing, social policy, and community development educator and researcher, serving as a professor in the University of Toronto's Faculty of Social Work for almost 50 years.



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Auditor's Report

To the Ontario Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the balance sheet of the Ontario Housing Corporation as at December 31, 1998 and the statement of operations for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998, and the results of its operations for the year then ended in accordance with the accounting policies described in note 1 to the financial statements.

A handwritten signature in dark ink, appearing to read 'Erik Peters'.

Toronto, Ontario
April 22, 1999

Erik Peters, FCA
Provincial Auditor

ONTARIO HOUSING CORPORATION


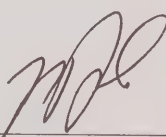
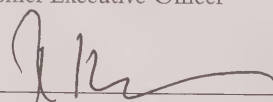
Balance Sheet

As at December 31, 1998

	1998	1997
	(Thousands of dollars)	
ASSETS		
Investments in Properties (note 3)	1,144,891	1,172,526
Mortgages and Loans (note 4)	27,128	28,961
Amount due from Province of Ontario	107,085	122,982
Accounts Receivable	8,351	9,028
	1,287,455	1,333,497
Non-Profit Housing Fund (note 5)	1,359,712	1,359,464
	2,647,167	2,692,961
LIABILITIES		
Long-Term Debt (note 6)	995,310	1,019,812
Accounts Payable and Accrued Liabilities (note 7)	101,757	115,323
Bank Indebtedness	537	3,435
	1,097,604	1,138,570
Non-Profit Housing Fund (note 5)	1,359,712	1,359,464
CONTINGENT LIABILITY (note 14)		
EQUITY		
Contributed Surplus (note 8)	189,851	194,927
	2,647,167	2,692,961

See accompanying notes to financial statements.

On Behalf of the Board:


Chair
General Manager
Chief Executive Officer
Treasurer

ONTARIO HOUSING CORPORATION

Statement of Operations

For the Year Ended December 31, 1998

	1998	1997
	(Thousands of dollars)	
Assisted Housing (note 9)		
Rental Revenue	314,984	306,656
Expenses		
Property Operating Expenses	304,902	311,711
Capital Repairs & Improvements	117,590	107,130
Grants in lieu of Municipal Taxes	123,641	120,203
Amortization (Principal and Interest)	104,782	108,165
Total Expenses	650,915	647,209
Net Operating Costs of Assisted Housing	335,931	340,553
Rent Supplement (note 10)	111,522	118,782
Provincial Contributions to Municipal Housing (note 11)	18,879	22,117
Rural and Native Housing (note 12)	7,698	7,871
Total Operating Costs before Subsidies	474,030	489,323
Subsidies		
Canada Mortgage and Housing Corporation	223,301	227,429
Province of Ontario (Loan Amortization Contribution)	19,797	20,750
Ministry of Municipal Affairs and Housing	230,932	241,144
Total Subsidies	474,030	489,323

See accompanying notes to financial statements.

NATURE OF OPERATIONS

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is established under the *Ontario Housing Corporation Act*. It is funded through rental income from tenants and subsidies from the provincial and federal governments. The Corporation together with its agents - the 54 Local Housing Authorities - manage the province's extensive public housing portfolio. Housing is provided to low income households based on need. Eligible tenants pay rent based on income rather than on the size or type of housing provided.

The Corporation is the largest landlord in Ontario, owning approximately 84,000 public housing units; providing rent supplement payments for approximately 21,000 units within private, non-profit and cooperative rental housing buildings; and providing subsidy to approximately 15,500 units within the Metro Toronto Housing Company Ltd. and to approximately 3,200 units in rural and native areas of Ontario.

1. SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies used in preparing the accompanying financial statements:

- i) The Corporation uses the accrual method of accounting.
- ii) Capital funds provided by the Province of Ontario for Investments in Properties are not repayable and are therefore recorded as Contributed Surplus. However, to reflect the full costs of operating the properties, relevant amortization charges (principal and interest) are imputed and included in the Net Operating Cost of Assisted Housing. Such amortization is offset by a subsidy from the Province of Ontario in the Statement of Operations.
- iii) Land and buildings held as investments in provincial and federal-provincial properties are amortized on a basis equal to the reduction of the corresponding long-term debt. For the provincial portion of such investments, the reduction is made to Contributed Surplus.
- iv) Capital Repairs and Improvements and furniture and equipment purchases are expensed in the year incurred.

2. SELF-INSURANCE

The Corporation follows the policy of self-insuring its provincial and federal-provincial properties for damages such as fire, water and vandalism. Costs of such repairs are charged to property operating expenses.

3. INVESTMENT IN PROPERTIES

The Corporation's investment in properties is as follows:

	1998	1997
	(Thousands of dollars)	
(a) Provincial Housing	1,053,114	1,074,753
(b) Federal-Provincial Housing	11,689	12,202
(c) Rural and Native Housing	28,058	28,082
(d) Student Housing on Leased Land	49,345	54,916
(e) Other	2,685	2,573
	1,144,891	1,172,526

(a) Provincial Housing

This investment represents land and building costs of wholly-owned properties which are amortized over periods not exceeding 50 years.

	1998	1997
	(Thousands of dollars)	
Cost	1,317,683	1,316,593
Less: Accumulated Amortization	264,569	241,840
Net Book Value	1,053,114	1,074,753

(b) Federal-Provincial Housing

Federal-provincial properties are owned and operated on a partnership basis with Canada Mortgage and Housing Corporation. The balance represents the Corporation's share of land and building costs which are amortized over periods not exceeding 50 years.

	1998	1997
	(Thousands of dollars)	
Cost	20,753	20,753
Less: Accumulated Amortization	9,064	8,551
Net Book Value	11,689	12,202

(c) Rural and Native Housing

These properties are owned and operated on a partnership basis with Canada Mortgage and Housing Corporation. The balance represents the Corporation's share of land and building costs which are amortized over periods not exceeding 35 years. The properties are managed by Canada Mortgage and Housing Corporation on behalf of the partnership - see note 12.

	1998	1997
	(Thousands of dollars)	
Rental Properties	26,136	24,822
Lease to Purchase Properties	1,922	3,260
Net Book Value	28,058	28,082

(d) Student Housing on Leased Land

This investment represents building costs to provide student accommodation on land leased from 11 universities and colleges. These costs are being repaid semi-annually to the Corporation by the educational institutions over a 50 year period. When the costs are fully repaid, titles to the properties will be transferred to the respective institutions. The institutions retain the rental revenues and absorb the property operating expenses. Consequently, the accumulated contributions of the universities and colleges represent their equity in the properties.

	1998	1997
	(Thousands of dollars)	
Cost	62,682	67,873
Less: Educational Institutions' Equity	13,337	12,957
Net Book Value	49,345	54,916

(e) Other

	1998	1997
	(Thousands of dollars)	
Leased Land, at cost	2,308	2,308
Land Inventory, lower of cost or estimated market value	265	265
Other	112	0
	2,685	2,573

4. MORTGAGES AND LOANS

	1998	1997
	(Thousands of dollars)	
Rural and Native Housing Program (See note 12)	24,293	26,072
Other	2,835	2,889
	27,128	28,961

5. NON-PROFIT HOUSING FUND

The Province of Ontario authorized the Corporation to borrow funds from the Canada Pension Plan Fund ("CPP") by the issuance of debentures. The funds borrowed were loaned as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units under the Homes Now and Student Residences Programs.

These mortgages to non-profit housing corporations have been discharged and refinanced by the private lenders. Funds received from the discharged mortgages are loaned to the Province of Ontario.

As at December 31, 1998, the fund consisted of:

	1998	1997
	(Thousands of dollars)	
Assets		
Cash	1,330	1,082
Loans to Province of Ontario	1,157,212	1,157,212
Mortgages		
Non-Profit Housing Corps.	1,760	1,760
Universities and Colleges	166,128	166,128
Interest Receivable	33,282	33,282
	1,359,712	1,359,464
Liabilities and Fund Balance		
Canada Pension Plan Investment		
Fund (CPP) Debentures	1,323,340	1,323,340
Interest Payable	33,282	33,282
Fund Balance	3,090	2,842
	1,359,712	1,359,464

The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures - weighted average rate of 10.3%.

Loans to the province and mortgages to non-profit housing corporations and universities and colleges are repayable over periods not in excess of 20 years. Interest is calculated semi-annually at various rates based on individual loans and mortgages - weighted average rate of 9.0% (1997 - 9.0%). When the interest received from the province is less than the interest payable on the related CPP borrowings, the Corporation receives an interest adjustment from the Ministry of Municipal Affairs and Housing for the difference.

Details of the transactions related to the fund balance are as follows:

	1998	1997
	(Thousands of dollars)	
Balance - Beginning of Year	2,842	20,513
Interest Earned	136,225	136,351
Interest Expense	(135,977)	(135,977)
Transfer to Ministry		(18,000)
Legal and Consulting Services		(41)
Refinancing Costs		(4)
Balance - End of Year	3,090	2,842

Interest earned includes \$ 102.2 million (1997 - \$102.2 million) on loans to the Province of Ontario, \$17.1 million (1997-17.2 million) from long term mortgages to Universities and Colleges, and \$16.9 million (1997-\$16.9 million) from the Ministry of Municipal Affairs and Housing as an interest adjustment for the difference between the interest rates on CPP borrowings and loans to the Province.

6. LONG-TERM DEBT

	1998	1997
	(Thousands of dollars)	
Canada Mortgage and Housing Corporation	977,911	1,001,943
Other	17,399	17,869
	995,310	1,019,812

The Corporation borrows funds from Canada Mortgage and Housing Corporation and the private sector to finance investments in real property. Such borrowings are repaid in accordance with agreement terms over periods not in excess of 50 years. Interest is payable at various rates based on individual agreements - weighted average rate of 6.9% (1997 - 7.4%).

Principal repayments on the long-term debt are as follows:

	(Thousands of dollars)
1999	22,933
2000	24,489
2001	26,152
2002	27,930
2003	29,826
Subsequent to 2003	863,980
	995,310

While the Corporation is indebted for capital funds borrowed in respect of investments in Provincial housing projects, the principal and interest paid on the indebtedness are cost shared with Canada Mortgage and Housing Corporation (CMHC).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	1998	1997
	(Thousands of dollars)	
Canada Mortgage and Housing Corporation	24,064	24,271
Other	77,693	91,052
	101,757	115,323

8. CONTRIBUTED SURPLUS

	1998	1997
	(Thousands of dollars)	
Balance - Beginning of Year	194,927	199,658
Capital Recoveries	(5,076)	(4,731)
Balance - End of Year	189,851	194,927

9. ASSISTED HOUSING

Under the assisted housing program, the Corporation owns (either wholly or in partnership with Canada Mortgage and Housing Corporation) rental properties and provides rent-geared-to-income accommodation to households in need. The management of the properties is carried out through a network of local housing authorities who act as agents of the Corporation. The net operating cost of this program is shared with Canada Mortgage and Housing Corporation.

10. RENT SUPPLEMENT

Under the rent supplement programs, the use of rental units is acquired from the private sector and from certain non-profit and cooperative housing groups and then rent-geared-to-income subsidies are provided to households in need. The subsidies represent the difference between the rent guaranteed to the landlord and the tenant portion of the rent. The costs for most of these programs are shared with Canada Mortgage and Housing Corporation.

11. PROVINCIAL CONTRIBUTIONS TO MUNICIPAL HOUSING

The Corporation provides funding to the Metropolitan Toronto Housing Company Limited towards operating costs for senior citizen apartment units.

12. RURAL AND NATIVE HOUSING

This program, administered by Canada Mortgage and Housing Corporation, provides subsidies for rental, lease to purchase and home ownership accommodation to families in rural areas. Rental, lease to purchase and home ownership payments are geared to owners' income. The expense represents the Corporation's share of the subsidy provided.

13. RELATED PARTY TRANSACTIONS

(a) Pension Plan

The Corporation provides pension benefits for substantially all its permanent crown employees through participation in two multi-employer pension plans, the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Corporation's net contribution to the PSPF and the OPSEU Pension Fund for the year was \$5.0 million (1997 - \$11.8 million consisting of \$6.4 million for the annual contribution and \$5.4 million for prior years' funding deficiencies). This amount is included in Assisted Housing - Property Operating Expenses and Rent Supplement in the Statement of Operations. Effective April 1, 1998, the cost of prior year's funding deficiencies is absorbed by the Province.

(b) Administrative Support Services

The Ministry of Municipal Affairs and Housing provides administrative support services to the Corporation. The charge for these services is based on the estimated time spent by ministry staff on the Corporation's activities. The administrative support services charge included in Assisted Housing - Property Operating Expenses and Rent Supplement amounted to \$15.7 million (1997 - \$15.6 million).

14. CONTINGENT LIABILITY

The Corporation has entered into loan insurance agreements with Canada Mortgage and Housing Corporation (CMHC) pertaining to mortgage loans on projects funded under various non-profit housing programs administered by the Ministry of Municipal Affairs and Housing. Under these agreements, CMHC will insure mortgage loans made by lenders approved under the *National Housing Act* for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of loan defaults on projects funded entirely by the province, and must share any net costs incurred for loan defaults on projects funded jointly by CMHC and the province. Any costs incurred by the Corporation will be reimbursed by the Ministry of Municipal Affairs and Housing.

As of December 31, 1998, there were \$5.5 billion (1997 - \$5.6 billion) of mortgage loans outstanding on provincially-funded projects and the provincial share of mortgage loans outstanding on jointly-funded projects was \$2.0 billion (1997 - \$1.9 billion). As the province provides operating subsidies sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

15. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are based on relevant market prices and information available at December 31, 1998. The fair value estimates are not necessarily indicative of the amounts that the Corporation might receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Since the investments in properties do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Corporation as a whole.

It is impractical to determine fair values for mortgages and loans made under the Rural and Native Housing program because of the terms and conditions related thereto, including associated subsidies.

The fair values of amounts due from the Province of Ontario, accounts receivable, accounts payable and accrued liabilities, and bank indebtedness approximate their carrying values because of the short term maturity of these instruments.

The fair values of each of the Corporation's long-term debt instruments is based on the amount of future cash flows associated with each instrument discounted using an estimate based on debt instruments with similar characteristics. At December 31, 1998, the aggregate fair value of these instruments exceeded their aggregate book values by \$41.4 million (1997-\$3.5 million).

Due to the nature of the assets and liabilities comprising the Non-Profit Housing Fund and the terms and conditions related thereto, the Corporation does not have any significant interest rate risk because the Corporation is reimbursed for losses arising from fluctuations in interest rates.

YEAR 2000 READINESS

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000.

If the Year 2000 Issue is not addressed by the Corporation and its major suppliers and other third party business associates, the impact on the Corporation's operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of suppliers, or other third parties, will be fully resolved.

The Corporation has a program in place which management believe will address the Year 2000 Issue.

FUTURE OPERATIONS

As part of its Local Services Realignment initiative, the government announced that funding and administration of social housing would be devolved to municipalities. This implied that the Corporation's role would disappear or be much reduced by the year 2000. However, devolution of administrative responsibility for social housing to municipalities requires a new agreement with the Federal Government. Negotiations on this new Federal-Provincial agreement have not yet been finalized and the timing is still uncertain.

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